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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*North Vietnam's Economy in 1971 and Prospects for 1972*

**Secret**

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**CENTRAL INTELLIGENCE AGENCY**  
**Directorate of Intelligence**  
**March 1972**

**INTELLIGENCE MEMORANDUM**

**NORTH VIETNAM'S ECONOMY IN 1971  
AND PROSPECTS FOR 1972**

**Summary and Conclusions**

1. North Vietnam's economy was dealt a serious setback by the floods of late summer 1971. Agricultural output dropped to almost the lowest level recorded under Communist rule, causing gross national product (GNP) to fall by about 10%. Although the floods retarded industrial growth, industry scored significant advances, and production was nearly up to the prebombing level. The reconstruction program was equally impressive as several years of effort culminated in the restoration of most of the bomb-damaged industry. Another sign of economic upturn was reflected in growing export volumes, but the country still depends heavily on imports from Communist countries for a wide variety of needs.

2. Further economic gains are in the offing for industry in 1972, but agriculture probably will continue to suffer from lingering effects of the floods. Food deficits during the first half of the year will be covered, for the most part, by increased food shipments from the USSR and the People's Republic of China.

**Discussion**

**Introduction**

3. North Vietnam's economic recovery since the 1968 bombing halt has been slow, owing to lingering disruptions caused by the war -- severe bomb damage in transportation and heavy industry, manpower strains from cumulative military inductions, shortage of skilled labor, and low labor productivity. However, the economy at the end of 1970 had recovered to about 95% of prebombing levels of output. Hanoi at that point embarked

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on a new three-year state plan (1971-73) designed to complete the job of rehabilitating the economy and to promote agricultural production. This memorandum discusses achievements and setbacks during the first year of the plan as they relate to short-term prospects.

**Economic Overview: 1971**

4. Hanoi's account of 1971 state plan fulfillment was an optimistic one. However, industrial growth -- claimed to be 14% -- was not sufficient to counter heavy losses in agriculture, where production was about 20% below the 1970 level. Thus, GNP dropped to roughly 90% of the 1970 level, or about 15% below the 1965 prewar peak.

5. Despite the economic difficulties faced by North Vietnam this past year, the regime held fast to the basic war orientation of its economic priorities. The first priority continued to be the satisfying of demands for "human and material resources for the frontline," a commitment involving predominantly manpower for military service and maintenance of the logistics pipeline. Military conscription for the year as a whole may have been at the highest level since 1968, and substantial recruitment took place during August and September -- the flood months. The second priority, economic development, was given some attention, but improved living standards for the populace ran a poor third. The latter was evidenced early in the year when the consumer was reminded by Deputy Premier Do Muoi of the need for "belt tightening" to further the cause of "capital accumulation." A visible step in this direction was a reduction in the rice rations for state employees by about 2 pounds per month -- a cut of about 7%.

**Agriculture**

6. Unprecedented late-summer floods changed agriculture's prospect in 1971 from one of the most promising ever to one of the worst. The spring rice harvest apparently was the largest ever achieved and was accompanied by the largest industrial crop in five years -- made up of peanuts, soybeans, cotton, and jute -- plus a substantial increase in livestock breeding. About midway into final transplanting of the large autumn rice crop, extensive floods struck the rich delta region, inundating close to one-half of the autumn rice and destroying an estimated 35% to 45% of the crop. In terms of milled rice, the loss amounted to 700,000 to 900,000 metric tons. Total rice production for the year dropped to about 2.4 million tons of milled rice, some 20% below the previous year and the lowest since 1955. Including secondary crops, total production of food crops fell to a record low of about 3 million tons (see Table 1).

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Table 1

**Production of Food Crops in North Vietnam****Million Metric Tons**

<u>Year</u>	<u>Total</u>	<u>Rice a/</u>	<u>Secondary Crops b/</u>
1964	3.7	3.0	0.7
1965	3.8	3.1	0.7
1966	3.5	2.8	0.7
1967	3.6	2.8	0.8
1968	3.3	2.6	0.7
1969	3.4	2.7	0.7
1970	3.6	3.0	0.6
1971	3.0-3.1	2.4-2.5	0.6

*a. Milled or polished rice.*

*b. Corn, sweet potatoes, and manioc expressed in milled rice equivalents.*

7. Apart from rice losses, the floods caused widespread erosion of farmland, breaches in long stretches of irrigation canals, and destruction of many irrigation pumping stations. The press indicated considerable destruction of stored goods, tools, and machinery and the loss of some state grain reserves. Livestock losses apparently nullified the gains made during the spring.

**Industry**

8. Some solid gains in industrial production emerged in 1971. Announced plan fulfillment showed a growth of 14% in total industrial output, with the centrally controlled sector (basically the heavy industrial sector) increasing 17.5% and the cooperative sector (largely handicrafts) by 8.5%. The locally controlled sector of state industry, in which large sums were invested during the bombing years to increase regional self-sufficiency, also grew substantially, as indicated in Table 2. The output of the heavily damaged central sector was still only about three-fourths of the 1965 peak.

9. A dramatic improvement in fuels and power took place last year. After nearly three years of relative stagnation, production of coal reportedly increased by 24%, largely because of improved mining operations. Electric power production went up an estimated 10%. By year's end, power-generating capacity had increased 30% as the first generator of the large Thac Ba hydroelectric powerplant, built with Soviet assistance, went

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Table 2

Index of Industrial Production  
in North Vietnam a/

Total in 1964 = 100

<u>Year</u>	<u>Total <u>b/</u></u>	<u>State</u>		
		<u>Central</u>	<u>Local</u>	<u>Cooperative</u>
1964	100 <u>c/</u>	51	19	30
1965	108	56	22	30
1966	103	50	23	30
1967	90	39	24	28
1968	90	40	24	26
1969	90	37	26	28
1970	92	37	28	28
1971	105	43	32	30

*a. Based on fragmentary data from North Vietnamese newspapers and radio broadcasts.*

*b. Because of rounding, data may not add to the totals shown.*

*c. In absolute terms the value is estimated to be roughly \$400 million.*

into service, along with a new diesel powerplant in Haiphong. Capacity available for service, which is almost back to the prebombing level, has eliminated the severe power shortage experienced throughout 1970.

10. In other branches of industry, the reconstruction effort has begun to bear fruit. Repair of bomb damage at the Haiphong Cement Plant was basically completed in 1971 after almost four years of work. North Vietnam's capacity to produce chemical fertilizer is being enhanced by a nearly completed expansion of the Phu Tho Superphosphate Plant and renovation of two smaller fertilizer plants at Van Dien and Hai Duong. Reconstruction, as well as expansion, of the country's only nitrogen fertilizer plant at Bac Giang got under way in the fall. At Lao Cai, production facilities for processing apatite (the raw material for superphosphate) also were expanded. Photography shows that the Nam Dinh textile plant was essentially restored during 1971, although machinery may not yet have been installed. In Hanoi a major expansion of the country's largest machine building facility was well under way in 1971, further increasing the country's capacity to produce metalworking machinery and such items as hydraulic pumps for agriculture. At the Thai Nguyen Iron

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and Steel Combine, two of the three blast furnaces are in operation, but thus far production has been sporadic.

### Transportation

11. The transportation sector continued to receive a high priority during 1971. Progress basic to logistical support for the war and to the economy included steady expansion of new berthing facilities and loading cranes at the port of Haiphong, opening of the rail-highway bridge at Hai Duong on the Hanoi-Haiphong rail line, and the first confirmed use of the realigned segments of the Hanoi - Dong Dang railroad, the principal rail artery from China (see the map). In the southern part of the country, construction continued on the rail link between Vinh and Duc Tho to join a light-capacity rail line in the panhandle with the Hanoi-Vinh railroad. Between October 1970 and November 1971, work on the light-capacity line included rebuilding of four original and five bypass bridges and construction of three entirely new bridges. Only a small amount of construction remains before through rail traffic will be possible from Hanoi to storage areas in the panhandle that serve logistics routes into southern Laos. Significant headway also was made on integrating two petroleum pipeline systems, an east-west line from Bai Chai (near Hon Gai) to Hanoi and a north-south line from Hanoi to Laos. This pipeline network now has gaps totaling 40-50 miles. When they are closed, North Vietnam will be able to distribute petroleum from the port of entry at Bai Chai into the Laotian panhandle. This will eliminate the shipment of petroleum by coastal vessels currently shuttling between Haiphong and Vinh.

12. Despite these signs of progress, it is clear that the regime was not satisfied with performance of the transportation industry. Unusually stern press criticism charged the sector with widespread failure to deliver goods necessary for construction, agriculture, and industry, and, consequently, transportation bore the onus for resultant disruptions in economic development. Some of the shortfall probably stems from the floods when main transportation arteries in the delta region were interdicted for upwards of two months, but poor management and low productivity were undoubtedly also important impediments. These, in turn, almost certainly reflect the strain of military logistics demands, which, by their nature of one-way shipment of goods, fundamentally make inefficient use of transport equipment.

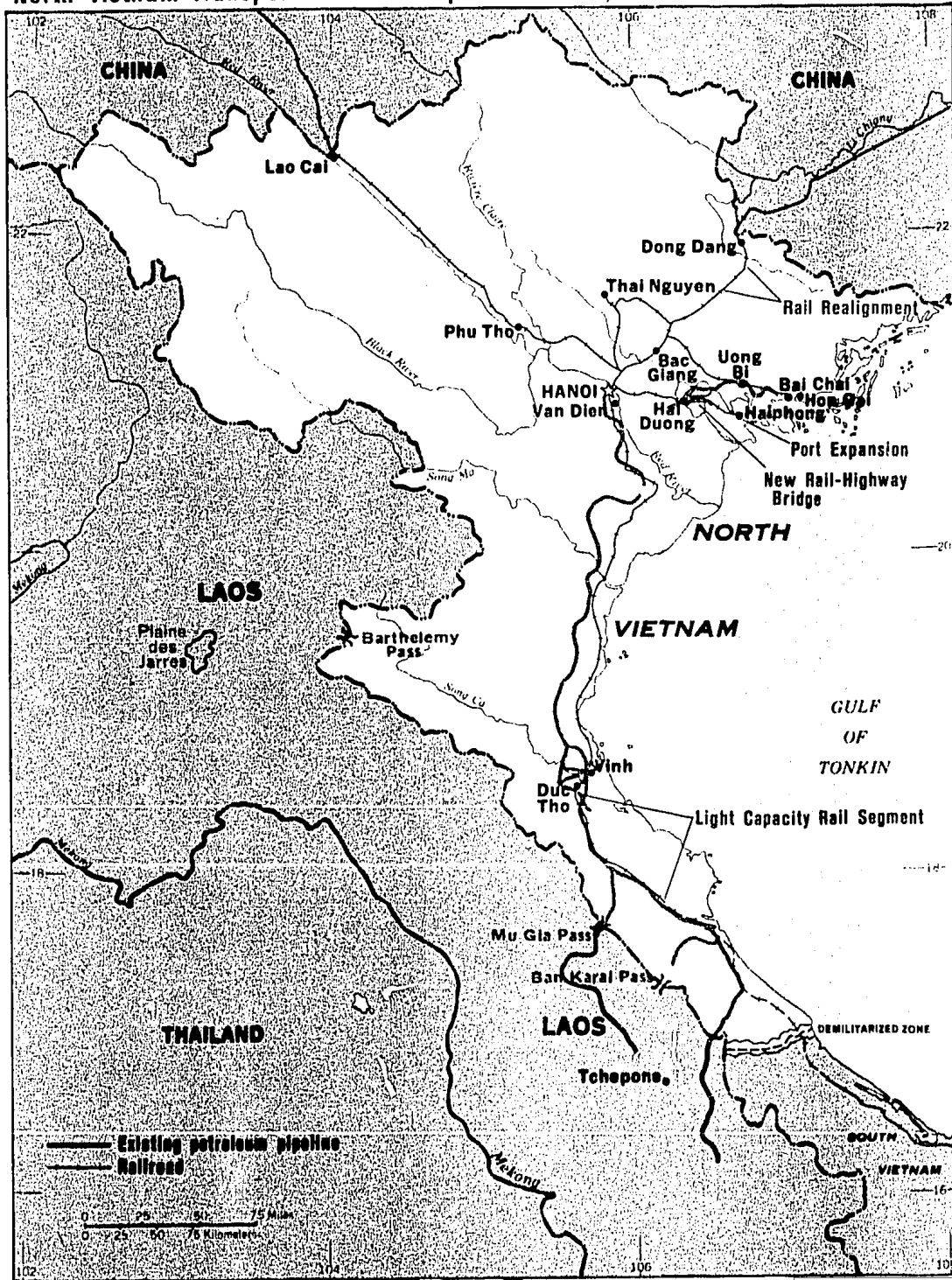
### Foreign Trade and Aid

13. North Vietnam's seaborne exports during 1971 increased considerably (nearly 20%) compared with 1970, although the export volume was still less than half the 1965 level. Seaborne exports increased from 580,000 tons in 1970 to about 690,000 tons in 1971 (see Table 3). The



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North Vietnam-Transportation and Pipeline Growth, 1971



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Table 3

North Vietnam:  
Seaborne Imports and Exports a/

	Thousand Metric Tons				
Cargo	1965	1968	1969	1970	1971
<i>Total imports</i>	847	1,967	1,890	1,888	2,232
Foodstuffs	119	798	755	660	616
Fertilizer	162	155	154	202	329
Petroleum	170	388	375	361	390
General and miscellaneous	396	627	607	665	897
Unidentified	N.A.	268	209	287	547
<i>Total exports</i>	1,713	694	573	580	692
Apatite	318	--	13	95	35
Cement	78	--	23	15	17
Coal	1,150	629	461	372	484
Pig iron	48	--	--	--	--
General and miscellaneous	120	66	76	98	156
Unidentified	N.A.	30	18	33	85

a. Because of rounding, components may not add to the totals shown.

most striking development was an increase in coal exports of 30% and a shift in the coal market from China to Japan brought about by an apparent accommodation on the part of China to augment North Vietnam's hard-currency foreign exchange earnings. No coal was delivered to China for ten months, and total deliveries dropped to one-seventh the level of the preceding year. In contrast, coal deliveries to Japan increased nearly 75% (to 410,000 tons), and represented some 85% of total coal exports. Exports of general and miscellaneous cargo rose by 60%, to 156,000 tons. Light industrial goods and handicrafts showed a healthy upturn. For example, export of processed foods and industrial crops doubled, from 15,000 to 30,000 tons, reflecting the emphasis placed on such exports for increasing hard-currency earnings. Increasing domestic needs probably prevented a significant expansion of cement exports and also may have accounted, in part, for the sharp decline in apatite sales. For the fourth consecutive year, no pig iron was exported, although tentative offers to

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several countries suggested that an exportable surplus is now becoming available.

14. Seaborne imports also rose about 20% in volume to more than 2.2 million tons in 1971. Deliveries from China nearly doubled and, as a share of total, increased from about 20% to 30% (660,000 tons). Deliveries from the USSR also increased to a total of more than 1.3 million tons, but the Soviet share of total tonnage slipped from two-thirds to less than 60%. The relative shares from Eastern Europe and other Communist countries declined by negligible amounts.

15. Identified imports were highlighted by an upsurge in shipments of chemical fertilizer, which exceeded the previous high in 1966 by almost 45%. Increased fertilizer imports coincided with greatly expanded cultivation of high yield rice strains in the spring and continued at a high level in the fall as efforts were made to recover from flood losses by more intensive cultivation. Both the USSR and China became increasingly important as suppliers of fertilizer in 1971, while imports from Japan declined in both relative and absolute terms, with concomitant savings of hard currency. Identified imports of machinery and transportation equipment fell, while imports of metals and metal products rose moderately, from 130,000 tons to about 145,000 tons. The decline in identified imports of capital goods, coupled with the rise in deliveries of bulk commodities, led to a drop in the estimated total value of seaborne imports from \$560 million in 1970 to \$515 million in 1971.

16. Communist countries continued to underwrite Hanoi's military and economic requirements during 1971 (see Table 4). Military assistance increased somewhat, enabling North Vietnam to replace ground equipment lost during Lam Son 719 operations and to improve its air defense capability. The higher level of military assistance included increased deliveries of defensive missiles and related equipment, antiaircraft weapons, ground-force equipment, and ammunition. Total economic aid remained about the same as in 1970, although the share from the USSR declined and that from China increased sharply. Part of this shift probably can be attributed to accelerated construction on a number of Chinese industrial projects.

#### Prospects for 1972

17. Prospects for further industrial recovery in 1972 are good, and announced targets are the most ambitious since 1965. The planned increase in coal production (25%) probably can be achieved readily in view of the progress made during 1971. Similarly, the planned increase in electric power production (24%) seems feasible. The second and third generators of the Thac Ba plant are scheduled to be put into service during the spring of 1972. Moreover, reconstruction continues on six to eight damaged powerplants about the country. At the largest of these, the Uong Bi powerplant, work is in progress that probably will double the size of the original facility. The planned increase for engineering and metallurgy

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Table 4  
Estimated Communist Aid to North Vietnam

	Million US \$						
	1965	1966	1967	1968	1969	1970	1971 <sup>a/</sup>
<i>Economic aid</i>	135	290	475	615	685	810	600
USSR	95	160	235	305	385	345	315
China	35	70	120	120	90	60	100
Eastern Europe and other	5	60	120	190	210	205	185
<i>Military aid</i>	270	455	650	390	225	155	175
USSR	210	360	505	290	120	70	100
China	60	95	145	100	105	85	75
Eastern Europe and other	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.	Negl.
<i>Total aid</i>	405	745	1,125	1,005	910	765	775
USSR	305	520	740	595	505	415	415
China	95	165	265	220	195	145	175
Eastern Europe and other	5	60	120	190	210	205	185

*a. Preliminary.*

(54.6%) seems a reasonable target in view of the expansion now under way at the Hanoi Machine Tool Plant and the potential for increased production at the Thai Nguyen Iron and Steel Combine. A major portion of the increase for chemicals (36%), which includes fertilizer (69%), will come from the restored Haiphong Cement Plant and expansion of the Phu Tho Superphosphate Plant; the unusually high figure for fertilizer probably implies start-up of the Bac Giang Nitrogen Fertilizer Plant as well.

18. Agriculture's prospects are somewhat more bleak. Currently, North Vietnam faces a vastly greater food deficit than at any time in recent years. Efforts to expand an interim winter crop of secondary foods will do little to offset losses, and unrepaired flood damage to irrigation facilities probably will limit output from the 1972 spring harvest. The regime presumably would be reluctant to draw on state grain reserves, and, while some belt tightening is possible, the food ration is already near the subsistence level. It seems likely, then, that heavy dependence on foreign assistance will be required, at least until the next major harvest in June. Food grain imports for the period July 1971 to June 1972 could reach 1 million tons, or double the total for the previous 12-month period. There is no reason to doubt that Hanoi's allies will be willing to meet these needs. The principal Communist countries have all now concluded aid agreements for 1972 under circumstances that suggest continued endorsement of Hanoi's policies.